



# **STATEMENT**

**of the**

**American Medical Association**

**Committee on Small Business**

**United States House of Representatives**

**RE: The President's Budget and Medicare: How  
Will Small Providers be Impacted?**

**Presented by: Joseph M. Heyman, MD**

**March 18, 2009**

**Division of Legislative Counsel  
202 789-7426**

**STATEMENT**  
**of the**  
**American Medical Association**  
**Committee on Small Business**  
**United States House of Representatives**

**RE: The President's Budget and Medicare: How Will Small Providers be Impacted?**

**Presented by: Joseph M. Heyman, MD**

**March 18, 2009**

The American Medical Association (AMA) appreciates the opportunity to provide our views regarding today's hearing on "The President's Budget and Medicare: How Will Small Providers be Impacted?"

We commend you, Chairwoman Velazquez, Ranking Member Graves, and Members of the Committee for holding this hearing. The AMA welcomes the opportunity to provide our views on the President's budget and its impact on physicians, as small businesses, and the patients they treat.

We greatly appreciate that the Administration's budget assumes a new baseline (a "baseline" is a forecast of projected spending over a period of time) for Medicare physician payment updates. This is known as "rebasings." Unlike previous budget forecasts, the Administration's new budget baseline recognizes that Congress needs to and will act to avert the serious access crisis that looms as physicians face drastic payment cuts in the coming decade due to the failed Medicare physician payment formula (the sustainable growth rate, or SGR). **The AMA strongly supports the use of a realistic baseline as a foundation for Congress to move forward with a permanent solution to the flawed SGR physician payment formula, and urges the Committee and Congress to ensure that a new Medicare physician payment baseline is adopted in the 2010 Fiscal Year (FY) Budget Resolution.**

The vast majority of physician practices are small businesses. Steep payment cuts under the SGR, along with numerous other challenges in the current health care environment, threaten the continued viability of these practices. Physicians are the foundation of our health care system, and thus it is critical that Congress address these challenges to ensure the continued delivery of quality health care in our country. "Rebasings" would strongly support this

foundation and pave the way for Medicare to fulfill its promise of high quality, cost effective health care to seniors and disabled persons, especially as Medicare prepares to begin enrolling the first wave of baby boomers in 2011, with enrollment growing from 44 million in 2011 to 50 million by 2016.

### **THE MEDICARE PHYSICIAN PAYMENT FORMULA IS FATALLY FLAWED**

Medicare payment rates for physicians' services are updated annually on the basis of the SGR, a formula that has continually resulted in steep Medicare physician payment cuts. The SGR formula sets a target and if Medicare spending on physicians' services exceeds this target, physician payment rates are cut. These cuts occur even though the SGR target is linked to factors that do not correlate to medical practice cost inflation and does not make allowances for advances in medicine, such as new technology and shifts in care from hospitals to physician offices, that produce savings for the Medicare program as a whole even though they may increase utilization and the cost of Medicare physicians' services.

As a result of the flawed SGR, Congress has repeatedly had to scramble at the 11<sup>th</sup> hour to forestall steep cuts in Medicare physician payment rates. Despite these interventions, physicians face cumulative cuts of over 40 percent in the coming decade, including a 21 percent cut scheduled for January 1, 2010. Physicians cannot absorb these steep losses, especially when physician practice costs are expected to increase by at least 20 percent at the same time rates are being cut, and data released by the Centers for Medicare and Medicaid Services (CMS) show that, even before these cuts, physicians are only being reimbursed for two-thirds of the labor, supply, and equipment costs that go into each physician service.

These steep cuts would be unsustainable for any business, especially small businesses such as physician practices. Further, once Medicare cuts its rates, it has a ripple effect on patients covered by other payers that tie their rates to Medicare (including military members, their families, and retirees in TRICARE, retired Federal employees, and those enrolled in state Medicaid programs).

### **ADOPTING A NEW MEDICARE PHYSICIAN PAYMENT BASELINE STRONGLY SUPPORTS THE FOUNDATION OF MEDICARE**

#### Adopting a New Medicare Physician Payment Baseline is a Realistic, Transparent Approach to Addressing Health Care Costs

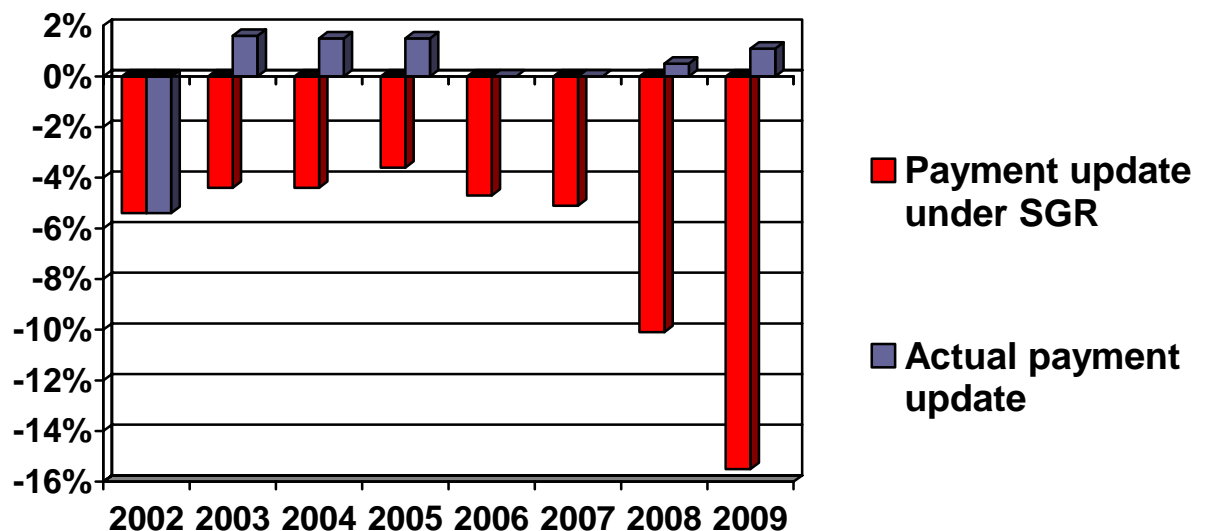
As discussed above, the AMA strongly supports the assumption of a new physician payment baseline in the Administration's budget. The primary purpose of a baseline is to provide policymakers with a clear forecast of projected spending and taxpayer obligations. In previous years, forecasts of Medicare physician spending have been based on inaccurate assumptions. For example, each year since 2004, the annual reports of the Medicare Trustees have warned that their projections of Medicare's Supplementary Medical Insurance Trust Fund were "unrealistically low" because they incorporated an assumption that the 40 percent in physician cuts would occur. In actuality, since 2003, Congress has interceded six times to legislatively ignore the physician payment baseline and provide temporary payment increases.

In contrast to the Trustees Reports, the Administration's budget assumes a realistic assumption that Congress will continue to act to preserve seniors' access to care by stopping cuts produced by the SGR. This "rebasings," if also adopted by Congress in its budget resolution, would recognize the reality of future Medicare spending on physicians' services.

**We urge the Committee and Congress to support action by the House Budget Committee to adopt a similar "rebasings" provision in its FY 2010 Budget Resolution by establishing a new baseline for Medicare physician payment.** Enacting legislation would be scored against the Budget Committee's new baseline, and this legislation could then repeal the SGR with little or no legislative cost (as long as spending in the legislation is in line with the baseline established in the Budget Resolution). If Congress does not establish a new baseline in the FY 2010 Budget Resolution, then hundreds of billions of dollars in offsets would need to be identified to pay for averting 40 percent cuts in Medicare payment rates.

"Rebasing" is a smart, realistic, and transparent approach to addressing rising health care costs because it allows accurate forecasts of what those costs are going to be. The chart below shows the actual Medicare physician payment updates between 2002 and 2009 (after Congressional intervention) compared to the scheduled payment cuts produced by the SGR for those years.

### Physician Payment Updates Under the SGR 2002-2009



Because many of the legislative fixes indicated in the above chart were funded without adjustments to the Medicare physician payment baseline, Congress and the physician community now face a 21 percent cut in January 2010, along with steep cuts in the coming decade. To avert these future cuts that threaten patient access to care, Congress would have to intervene, thereby continually ignoring the current Medicare physician payment baseline. "Rebasing" recognizes this need for Congressional action year after year, and therefore more accurately reflects projected Medicare spending than the current baseline.

Adopting a New Medicare Physician Payment Baseline  
Preserves Medicare Beneficiary Access to Health Care

Physician practices, as small businesses, cannot absorb the steep losses projected under the SGR, and numerous surveys project a crisis in patient access if Medicare physician payments fall further behind practice cost increases. For example, in an AMA survey, 60 percent of responding physicians said they would have had to limit the number of new Medicare patients they treat if the pay cuts scheduled for January and July 2008 had not been stopped. Further, more than half of the surveyed physicians said they could not have met their current payroll and would have been forced to reduce their staff. The Medicare Payment Advisory Commission (MedPAC) also reports that 30 percent of Medicare patients looking for a new primary care physician already have trouble finding one. Finally, the Medical Group Management Association found that 24 percent of group practices already limit their acceptance of new Medicare patients.

The projected cuts also affect the physician workforce. The Council on Graduate Medical Education is predicting the country will face a shortage of 85,000 physicians by 2020, and the Association of American Medical Colleges (AAMC) reported in November 2008 that there will be a shortage of at least 124,000 physicians by 2025 across all specialties. The current expansion of medical schools and growth in medical student enrollments will not address these physician shortages unless the number of U.S. residency slots increase as well.

**Adopting a new Medicare physician payment baseline would help avert the SGR cuts and preserve access to care for Medicare beneficiaries. This, in turn, would favorably impact physician workforce concerns.**

Adopting a New Medicare Physician Payment Baseline Allows the Health Care Community  
and Congress to Address Needed System-Wide Health Reform

**Adopting a new Medicare physician payment baseline also is critical for achieving system-wide health reform.** It would pave the way for establishment of a new Medicare physician payment system that accurately reflects increases in medical practice cost inflation. A stable, predictable payment system with positive physician updates will allow physicians and Congress to focus on other important issues that are critical for moving the delivery of health care into the new millennium. Since 2002, due to the continual threat of SGR cuts each year, physicians have been treading water simply trying to stay afloat and keep their doors open for business. This all-consuming cycle has precluded physicians and Congress from turning to other bigger picture priorities and reforms that are badly needed. Adopting a new baseline will mean that billions of dollars each year that are spent providing a temporary SGR fix would be available for other important reforms, including: expanding health insurance coverage for the uninsured; adoption of health information technology and electronic medical records, which will help facilitate participation in quality improvement and incentive programs; ensuring an adequate physician workforce; and investment in prevention and wellness programs that lead to a healthier nation and help control costs over the long-term.

Adopting a New Medicare Physician Payment Baseline Would Impact Millions  
of Employees, Patients, and Physicians Across the Country

Adopting a new Medicare physician payment baseline would set the stage to develop a new physician payment system that ensures positive payment updates that accurately reflect practice cost inflation. Physician practices, as small businesses, could then make business decisions, including personnel decisions, against the backdrop of a stable financial environment, without the continual threat a steep cuts under the SGR. This is critical, especially when considering that many employees may currently be at risk of losing their job due to Medicare physician payment updates that have fallen well behind medical practice cost inflation, on top of the struggling economy. **Thus, adopting a new baseline and averting physician payment cuts would bolster our struggling economy because it would help sustain the jobs of nearly three million individuals across the country employed by physicians and related businesses affected by the Medicare physician payment cuts. It would also benefit millions of patients and physicians across the country as well.** For example, if the projected 21 percent scheduled for January 1, 2010, goes into effect, this would produce a loss of \$1.1 billion for the care of elderly and disabled patients in New York alone, and that loss increases to \$17.1 billion by 2016 due to nearly a decade of projected cuts. Further, 177,520 employees, 2,582,471 Medicare patients, and 180,226 TRICARE patients in New York will be affected by these cuts. Missouri physicians will lose \$260 million in 2010 due to the SGR cuts, and \$4.1 billion by 2016. In addition, 53,769 employees, 869,941 Medicare patients, and 153,311 TRICARE patients in Missouri will be affected by the SGR cuts. A new physician payment baseline is critical for protecting these millions of employees, patients, and physician practices across the nation.

---

The AMA appreciates the opportunity to provide our views to the Committee on these critical matters affecting patients, employees, and physician practices, as small businesses, and we look forward to working with the Committee and Congress to adopt a new budget baseline for Medicare physician payments and preserve the delivery of high quality, cost-effective care for our nation's seniors and disabled patients.